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TRANSPORTATION AND TELECOMMUNICATIONS COMMITTEE AND APPROPRIATIONS
COMMITTEE
November 09, 2007

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The Committee on Appropriations, and the Committee on Transportation and Telecommunications met at 1:30 p.m. on Friday, November 9, 2007, for the purpose of a briefing on the Department of Roads' Needs Study. Appropriations Committee senators present: Lavon Heidemann, Chairperson; Lowen Kruse, Vice Chairperson; L. Patrick Engel; John Harms; John Nelson; John Wightman. Transportation and Telecommunications Committee senators present: Deb Fischer, Chairperson; Arnie Stuthman, Vice Chairperson; Ray Aguilar; LeRoy Loudon. Senators absent: Tony Fulton, Carol Hudkins, Danielle Nantkes, Dwite Pedersen, DiAnna Schimek, and John Synowiecki. []

SENATOR FISCHER: Good afternoon. Good afternoon. I'd like to welcome everyone. This is a joint hearing of the Transportation and Telecommunications Committee, and the Appropriations Committee. My name is Deb Fischer. I am the Chair of the Transportation and Telecommunications Committee, and I am from Valentine, Nebraska, District 43. At this time, I would like to introduce my committee members. We have Senator LeRoy Loudon on my right. Senator Loudon is from Ellsworth, Nebraska. Senator Arnie Stuthman is Vice Chair of our committee. He is from Platte Center, Nebraska. Senator Ray Aguilar is from Grand Island. On my immediate right is our committee legal counsel, Mr. Dustin Vaughan. And on my left is the committee clerk, Mrs. Pauline Bulgrin. At this time, I would like to welcome the members of the Appropriations Committee and introduce the Chairman of that committee, Senator Lavon Heidemann. He is from Elk Creek, Nebraska. (Laughter) The group laughs. And I would like him to introduce his committee members. Senator Heidemann. []

SENATOR HEIDEMANN: Thank you. I am the Chairman of Appropriations Committee. My Vice Chair is Lowen Kruse from Omaha. To his left is John Nelson from Omaha. Senator Harms is from Scottsbluff. John Wightman is from Lexington. And Pat Engel is from South Sioux. []

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SENATOR FISCHER: Thank you, Senator Heidemann, and welcome to all the Appropriations Committee members. Our pages today are Matt Pederson from North Platte, and Molly Keenan from North Platte. If you have...Senator...or senator, I always want to demote I, don't I, Director Craig? If you have any handouts, they would be happy to pass those out for you. This is a briefing today that is required by statute and it is held annually, with the two committees having this joint hearing. As such, we will just be having a briefing from Director Craig of the Department of Roads and no other testimony will be taken. So with that, welcome, Director Craig. Thank you for being here today. []

JOHN CRAIG: (Exhibit 1) Thank you, Senator. Well, good afternoon, Senator Fischer, Senator Heidemann, and members of the Transportation and Telecommunications, and Appropriations Committees. My name is John Craig and I am the director of the Nebraska Department of Roads. As required by law, I am reporting on the status of Nebraska's state highway system needs. I will keep my testimony deliberately brief to allow ample time to respond to your questions. At the end of my presentation, I will leave you with copies of my presentation, the State Long Range Transportation Plan, our 2007 State Highway Needs Assessment, and the Department of Roads' 2006 Annual Report. For years, I have emphasized the importance of our surface transportation system, not only to Nebraskans, but also to the entire nation. Our economy and quality of life are dependent upon a well-functioning transportation system. Our transportation system connects people to jobs, family, medical care, schools, entertainment, and the goods and services we all need for everyday life, and plays a critical role in emergency response and recovery. As the department continues to work to preserve and expand this important asset, it has become clear that, financially, we are at a crossroad. Over the last few years, we have produced a highway program at the \$380 million to \$390 million level. Our highway program reached its peak at \$390 million in fiscal year 2006. Since then, we have seen a continuing declining trend, from \$350 million in fiscal year 2007 to \$341 million for the current year's

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program. Next year, federal dollars may sharply decline if Congress does not address the looming negative cash balance projected for the federal Highway Trust Fund. As a result, our program could drop to an estimated \$270 million. The declining program is not unique to Nebraska. Most states, cities and counties throughout the country face the same challenge. Compounding the effect of declining revenues has been the high rate of inflation for materials used to build and repair highways. Over the last three years alone, inflation has averaged approximately 11 percent a year, based on the Nebraska Highway Construction Price Index. Consequently, the purchasing power of the dollar has been significantly eroded. For example, over the last three years, asphaltic cement has risen 87 percent; concrete pavement, 57 percent; and structural steel, 44 percent. Additionally, in recent years, the state highway user revenues have fallen short of the appropriation levels set by the Legislature, due to the volatility in gasoline consumption and in the purchasing of motor vehicles. To address some of these challenges, we have chartered two teams within the Department of Roads to perform studies and make recommendations for the future. The first team, known as the System Preservation and Optimization Team, known as SPOT, completed the study and made final recommendations in February of 2007. They verified that preservation of the state highway system is our first priority and established that approximately \$170 million as a portion of our annual program is needed for this purpose. Also, they recommended that the needs criteria be revised in accordance with the American Association of State Highway and Transportation Officials, or AASHTO, guidelines. As a result of this team's recommendations, the 2007 state highway needs have been reduced by \$1.4 billion. The second team that we chartered, known as the Funding Distribution Team, was chartered to develop a distribution or refine, really, a distribution and prioritization methodology for highway system preservation and capital improvement needs. This is a work in progress and likely will not be completed until next summer. Today I am presenting to you our 2007 state highway system needs, and they are estimated at \$7.8 billion, in today's dollars, over the next 20 years. With inflation applied over the next 20 years, the total cost of the 2007 needs would be \$12.1 billion. As I stated earlier, we are at a crossroad. Two years ago we reached a high-water mark, producing the largest

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program in history, with the smallest and highest performing staff in 50 years. Since then, the sizes of our programs have been declining and will likely continue to decline into the foreseeable future. As such, we have been and will continue every effort on behalf of all Nebraskans to spend their highway revenues as wisely as possible to preserve and expand our surface transportation system. Thank you for our time, and I would be glad to answer any questions at this time. And if I could ask the clerk now to pass these green folders out which have all of those documents, including that prepared testimony. []

SENATOR FISCHER: Thank you, Director. Are there questions? Senator Wightman. []

SENATOR WIGHTMAN: You indicate that this is throughout the country, this same problem exists. What are other states doing to address it? Apparently not many of them have raised gas tax, have they? []

JOHN CRAIG: No, and each state...each state operates differently. Many states use...most states use the fuel tax, both state and federal. Some states have special sales tax that accrue. Some have, including many western states, have special federal funds that will accrue because of the large tracts of federal lands. There are other states that have attached a percentage of the cost of fuel to their revenue source. State of Oregon and the University of Iowa actually is beginning this same process. Those two entities are looking at a vehicle miles travelled tax, which, some future decade, may be the predominant funding mechanism for roads and other transportation, other than the predominant fuel tax. So it varies and each state, I think, does the best they can. By way of reference, this last spring I was invited by the state of Wyoming, who I would say are in a more difficult spot than we are and, to be short, I think they looked east to Nebraska and wanted to pick someone's brain and so they asked me, their legislature, to entertain questions. We did that for a couple of hours. And so it's a struggle for all states and each one is going about it a bit differently. I don't think there is any trend. []

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SENATOR WIGHTMAN: As a follow-up, but doesn't the miles travelled tax basically hit the same people in pretty much the same proportion as an increase in gas tax, or does it? []

JOHN CRAIG: You know, I'm not sure how to respond to that. I think I'd characterize it, it's a refinement, probably, in terms of the fuel tax. Fuel tax is just based on the number of gallons. If you buy a gallon of gas, you pay this portion of state and federal fuel tax. If it's vehicle miles travelled--and the devil is in the details, and this will be one of the things that will have to be dealt with--there are a lot of variables that can be added to that. Could be the weight of the vehicle. Could be the size of the vehicle, for that matter, but I would suspect as the science of road building and deterioration rates gets developed that that may well weigh in. And so there's always, if you view the world from winners and losers, there may well be, as that transitions to, if that occurs, to a vehicle miles travelled fee, there will be winners and losers. There likely will be those who will be paying more than they currently are, and there may well be those that are paying less, and that will be part of the angst trying to work your way through that. []

SENATOR WIGHTMAN: But I'm assuming that's in addition to the fuel...to the gas tax, is it not? []

JOHN CRAIG: That's a question in itself. Actually, the state of Oregon has been experimenting with the vehicle miles travelled fee for two or three years and they have been saying that they intend to put a report out yet this fall. I have not seen it. Otherwise, they have not, they have not reported out at all relative to how that's going, what are the flaws, what are the advantages. But it is one of the revenue mechanisms that has been and probably will continue to be talked about. []

SENATOR WIGHTMAN: Thank you. []

SENATOR FISCHER: Other questions? Senator Harms. []

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SENATOR HARMS: Mr. Craig, if for some reason we just can't find a solution to maybe fund the Roads Department, or can't find a source of revenue, what criteria are you going to use to prioritize the projects that we have and that we have in the future? And are you going to have a different kind or priority for urban versus rural America? How are you going to deal with that issue? []

JOHN CRAIG: Well, that is the very question that this Funding Distribution Team that we chartered a few months ago is trying to come to some resolution, and they probably now are going to finish...they're probably not going to have their work finished, nor will we within the department, to know the answer to that perhaps till next summer. And so in the interim we continue to do...allocate funds the way we have and basically--it's a little more complex than this but in the whole--we will take the needs, whatever it is, each year we report to the State Legislature, and we will take the percentage of those needs and divide that up between our districts and then send that out. And that's what we'll use during the interim. But we will refine our methodology. The first priority being, off the top I'll say, \$170 million to preserve the system. And that will be literally, for all practical purposes, that means to maintain the current system we have without adding any new capacity. For the purposes of this conversation, I would say system preservation is generally analogous to maintenance. Anything above that \$170 million would be available for new capital projects--generally, new bridges, new lanes, those appurtenances that would add new capacity. And that is the very question we're trying to answer--how are we going to do that? And I can tell you, both by the volume of the discussions in the rooms adjacent to my office, it's an energetic discussion, even within the department. We...it's tough. It is very tough. And so as we get that worked, hopefully we'll come up with something wise for the state. It's taking longer than we ever planned. It's a tough question to answer. []

SENATOR FISCHER: Senator Engel. []

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SENATOR ENGEL: John, I know we've discussed this a little bit in the past as far as your priorities. I know right now we're in a fiscal problem, but as far as you say connecting people to jobs, now how much emphasis does the Department of Roads put on connecting roads to where...for economic development? And you know I'm referring to in Sioux City, Iowa, I-29 comes into Sioux City, Iowa; Highway 60 from Interstate 90 in Minnesota, because it's just been completely four-laned; Highway 20 is almost there, coming across Iowa, so there's that huge influx of traffic right there. In order to, from there, they have to go south to Omaha and then back across, which exacerbates your problem with the extra lanes because of all the traffic. If that expressway that we've been discussing could be built across Nebraska--and I think Joel Johnson has been talking to all of you about that--then it not only alleviates part of your problem there but it would create economic development across that corridor. And Nebraska is at a problem because in 2020, if things don't change in Nebraska, we're going to lose one congressman. The only way we going to keep that extra congressman, I mean the ones we've got, is to build up our population base. The only way to build up your population base is create jobs, and transportation is such a big part of that. And I was wondering if there's anything in your plans for the expressways. []

JOHN CRAIG: Let me respond this way. It's a great question. I'm tempted to say, what's the definition of economic development. We understand economics, and there is an entire discipline that has existed for 100-plus years called engineering economics. It's how traditionally our work is done. Economic development is a question in itself--what is that. And I'll give a reference point here to any new roads, and I'm going to project a little bit that I don't know what the future is going to hold in terms of priority, prioritizing new projects, but it may be that in a year I may be saying and may be reporting to this committee we don't have any money available for new roads, generally, new roads that add new capacity. There are a couple of exceptions, but they're very rare. That's a hard thing to say. Don't...I can't say that because I don't know exactly what the future is going to hold. Six-hundred-mile expressway system, this is my analogy, a good deal of that, contemplated in 1988, was for economic development. It was to connect cities of 15,000

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or more with the interstate system. The interstate system, when it was contemplated, prior to 1956, was to connect cities of 50,000 or more. So there's part of the logic. Much of that didn't meet our traditional engineering warrants, as calculated through engineer economics, so on and so forth, and the agreement, I'll use that word somewhat loosely, with the Legislature in the late eighties was that the Legislature would increase the fuel tax at the time, which was perhaps 20 cents per gallon, to build it. In effect, it didn't. Within years the political will was lost to generate the money to get it done, so we have a 600-mile expressway system that we are at a halt. We are not...we don't know when we will build any additional miles of that 600-mile expressway system. It was based on the increase of the fuel tax to generate the revenues to get that work done, it was supposed to have been let to contract by 2003, almost five years ago. The money was never generated, so to talk about further spreading the money out for, when the political doesn't exist to generate the funds to get the work done, and I...it's a difficult...it's almost impossible to answer. How can you talk about it without how are you going to pay for it? []

SENATOR ENGEL: Well, no... []

JOHN CRAIG: Or who's going to give up their road and let it deteriorate for someone else? It's tough. []

SENATOR ENGEL: Well, I think maintenance of your existing roads is most important because we don't want to let those deteriorate any further. But the only thing is, I think priorities, I think, of course, Department of Roads, your department engineers thing about the next mile of road, and I think other people are thinking about developing jobs and so forth across the state. What do you think about, if the streamlined sales tax, if that does come into being and that's not a new tax, it's an existing tax that we're going to start collecting, how about if that was dedicated? Would you believe in dedicating that to the expressway system to build up economic development, build up...and alleviate your situation that you've got in Omaha and so forth? []

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JOHN CRAIG: Yeah, this is going to sound like a dodge, and it's not intended that way, and this has kind of come to a...become clear in my mind. There are two roles that we have, and I'll say the Department of Roads and the Legislature and the administration, that is the Department of Roads and elected officials. Department of Roads, with whatever resources we have, will spend it as wisely as we possibly can. We are not in the business of generating revenues, we are not. []

SENATOR ENGEL: But we are. []

JOHN CRAIG: You are. []

SENATOR ENGEL: Yeah, okay. []

JOHN CRAIG: And so you're the ones that need to tell us what money is available to do the work. Otherwise, our job is to, as I am here, to testify based on what are the needs of the state highway system and what is it going to cost over the next 20 years to address them. Different roles. []

SENATOR ENGEL: Thank you. []

JOHN CRAIG: It's not intended as a dodge, but it's... []

SENATOR ENGEL: Thank you for whatever answer that was. But thank you. []

JOHN CRAIG: ...it's a slippery slope. If I began to talk about that, I would be out of bounds. []

SENATOR ENGEL: Thank you. []

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SENATOR FISCHER: Senator Louden. []

SENATOR LOUDEN: Yes, thank you, Senator Fischer. Kind of a follow-up on Senator Engel's line, we have probably a couple of the major agencies in Nebraska, and of course, the Department of Roads is one of them that spends a lot of money, so does Department of Education, and we have those two agencies that I don't know if they're in tune with working for rural areas, because the Department of Education has done all they could to close schools out in the rural area and the department of transportation doesn't want to build roads out there because they claim there isn't any traffic. So I'm wondering if we need some type of a strategic plan to use some of our resources to generate transportation corridors out in the rural areas to bring the population to the rural areas. For instance, as I look through your big thick book that you have, you're talking about this beltway around the south side of Lincoln, and it, what, totals out nearly \$90 million, but yet that's going ahead. Now do you intend to go ahead and build that around the south side of Lincoln, but yet some of your rural areas that would probably could use some transportation corridors would not get built? Now how do you plan on spending your money? Are you going to build that corridor or...? []

JOHN CRAIG: It's the same question that Senator Harms asked, and I would say the south beltway, as an example, I don't know when that will ever get built. That's a harsh thing to say. []

SENATOR LOUDEN: Well, how come you're...how come you're budgeting money to...for right-of-way and... []

JOHN CRAIG: There was...there's, just like the Heartland Expressway, Highway 35, a number of other earmarked projects at the federal level, there are earmarked funds to do that, to do some of the initial work. It's not dissimilar from the Heartland Expressway; otherwise, we wouldn't be out there doing the work. And, in effect, those earmarks are a net takeaway from perhaps where those...where the money ought to be spent. So we're

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not necessarily in favor of earmarks, but that's what's getting some of the work done. []

SENATOR LOUDEN: That beltway then is being done with earmarked money? []

JOHN CRAIG: Yes. []

SENATOR LOUDEN: And then you leverage what? You have to put up 20 percent to leverage the 80 percent or something like that? []

JOHN CRAIG: Yes. []

SENATOR LOUDEN: Okay. Then would we be further ahead to use some of that earmarked money? It would make our state funds go farther because we would leverage some federal money that way? Such as with that Heartland Expressway, I think it's a \$20 million project and, what, there's \$17 million earmarked; you have to come up with \$3 million. You get a ten-mile expressway for \$3 million bucks. Is that correct? []

JOHN CRAIG: Perhaps. []

SENATOR LOUDEN: Wouldn't that make...wouldn't that be something to consider? []

JOHN CRAIG: It would be something to consider. []

SENATOR LOUDEN: Okay. Thank you. []

SENATOR FISCHER: Other questions? Senator Heidemann. []

SENATOR HEIDEMANN: There seems to be a lot of pressure for the Legislature to do something in the 2008 Session as far as roads funding. In your personal opinion, and I

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emphasize your personal opinion, can we wait until the 2009 Session? []

JOHN CRAIG: Here's what I think, and I've visited with most of the senators one on one, if not this year, certainly the last couple years, and that...parts of these questions have come up in those sessions, which I have genuinely appreciated. When I call this a crossroad, it's not 2007, it's not 2008, it's not 2009. And even the timing of...the trigger for the big drop, from the \$341 million program that we're currently in to \$270 million that we project, that we would publish July 1, 2008, is due to our estimate of what we're going to lose in terms of federal funds. We don't know when that's going to occur precisely. Best estimate at the federal level is that's going to occur on or about 2009, so that's the most recent trigger. It's not the only one. In general, revenues are declining, both at the federal and state level. It's my way of saying it's a...it is a challenge that's not going to go away. It is going to be before us. It's before us now. It's going to be before us next year. It's going to be before us the year after that. And cities and counties in Nebraska and all the other states are going to have to come to grips with it one way or the other, and the federal government. I don't know that I could point to, gee, is 2008 more important than 2009. It's an issue that is likely to get worse every year that goes by, and I don't know that. We'll see how it evolves. We could...Congress and the President could say, hey, we're going to send \$200 million tomorrow. It's unlikely to happen I would say, but it could. But it's not an issue that's going to go away either, and it's going to be, in my opinion, before the State Legislature for the foreseeable future. I didn't answer your question direct because there's not a direct answer. []

SENATOR HEIDEMANN: Not at all. (Laugh) Thank you. []

SENATOR FISCHER: Senator Stuthman. []

SENATOR STUTHMAN: Thank you, Senator Fischer. Director Craig, has there ever been any type of a study as far as the gas tax, the amount of gas tax, in relationship to the cost of fuel and the cost of material for building new roads or maintaining new

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roads? At that level we're at, what, 26 cents? []

JOHN CRAIG: Twenty-seven point one cents. []

SENATOR STUTHMAN: Twenty-seven point one cents right now, and that was a little bit less several years ago. But with the fuel price this morning, the fuel price, highway fuel in my community was \$3.49.9 and your cost of asphalt pavement and stuff have gone up an average of 60 cents? At what levels would gas tax be if it was on the same percentage of years ago? Would it be at 40 cents? Should it be at 40 cents? []

JOHN CRAIG: Well, if I understand the question, and it's over the last...the impact of inflation alone, and I can get a more precise answer, but as I recall, over the last 15 years we have reduced the buying power of the dollar from about \$1, let's say as a base, 15 years ago to 59 cents on \$1 currently. What I didn't mention, and this is how variable it is, we...sometimes you have to look at what time frame you're talking about, because you can talk about a month or a year or ten years and come up with different questions and different answers for each one of those time frames. Even though the last three years have gone up an average of 11 percent a year, and I usually allocate that to three sources--one is oil, one is steel, one is cement, as I mentioned--and in large part the China factor, as they undergo their industrial revolution and are in the process of building an interstate larger than the one in the United States, and they will do that over the next couple of decades unless they run into other problems, which is possible. In the last three months, the inflation is about 28 percent. Now will that continue? I don't know. And you see it in some form or fashion in the price of gas at the pump. It's...the price of gas at the pump and the number of gallons burned, aside from diesel. Diesel continues to climb and I will normally assert that that reflects those truckers who are delivering the products that the rest of us are consuming. So diesel continues to climb and so does truck traffic. That's a question, will that continue to climb. But other fuels generally correlate pretty closely with the price of gas at the pump. Price of gas at the pump goes up, gallonage burns go down, as a result, our revenues go down, and so inflation is up

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over the last few months. If the price of gas has been down--I'm expanding on your initial question, I think--as the price of gas at the pump has gone down, relatively speaking, the gallonage burn has gone up and, as a result, our revenues have gone up in the last few months. That has certain implications for the future, but that's not a long-term trend, so you have to look at time frames, including the buying power of the dollar, and it's been pretty severe over the last two or three months. []

SENATOR STUTHMAN: But, Director Craig, if we continue where we're at with that amount of gas tax, like you say, we're going to really be short in the near future because of the escalating cost of the input costs. []

JOHN CRAIG: Let me...let me try and give another analogy more to the point, and I'll craft a question that I sense you're trying to pose. And if your question is, well, when will we not have any capital money available, I can tell you, and I've got two answers; one that we did perhaps a year ago, the other one we did here in the last six months. A year ago we calculated that about that we needed \$170 million to preserve that \$7 billion--actually it's a little more than \$7 billion now--asset that we call roads, not an insignificant asset anywhere, including in Nebraska. We made some reasonable assumptions at the time and we projected that, well, we would have some capital money available for the next 20 years. As it became apparent and in my mind moved from a possibility to a probability, not a certainty, that we will lose substantial federal funds, and I can be a little more specific relative to that, and the best estimates we can make or projections we can make relative to inflation, we now have a chart adjusted that says, well, those capital facility monies, those new capital project monies are not going to be available for the next 20 years; they're going to be available for the next 10 years. And so those lines would cross--preserving the pavement is the first priority--those lines are going to cross on or about 2017. If we analyzed it again in another two months, we might come up with a different answer. It might be before that; might be later than that. But it just reflects that this challenge is not going to go away and it's before us. We just don't know precisely the timing nor even the amount of money that's going to impact us.

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Does that help at all? []

SENATOR STUTHMAN: Yes. Yes, it does. Because I think there's only two things that we can really do. That is, you know, find another source of revenue or increase the taxes. []

JOHN CRAIG: Which would be another revenue source. []

SENATOR STUTHMAN: Yes. Yes. But I mean, yes, it would be...they'd both be revenue sources but one of them would be a continuation and increase the gas tax, or find some other type of revenue. []

JOHN CRAIG: You know, at some risk, and I shouldn't say that, there's actually another option and we...many people from the Department of Roads sitting behind me and representatives, contractors and others, and part of our job is to find the most efficient way of doing work, and as I mentioned...and we do all the time. It's the best of continuing improvement, continues improvement, so when you do that, potentially it frees up money. And I'll even give an example here in a second. So revenues, I don't think there's any question about it, that's the elephant in the room--what is it that we want in the future and how is it going to be paid for? So it does come down to money. But there's also the notion of efficiencies. And I'll go back...and it's a credit to the people behind me. They are the real deal. They do more with less and we work on that a lot. On payroll alone--as I mentioned that the work force in the department is the smallest in 50 years--7, 8 years ago, that amounted to \$7 million or \$8 million a year in savings alone that then can be used for other things. Now there is all kinds of implications from that. We've made some errors in judgment. I'll attribute that to myself. But, by and large, that was an efficiency and then a savings. And it's more than that now. I can't give you a precise figure. But there is another way to help do that but it's marginal. Those gains are marginal. It's not...it's not going to build a lot of roads at that rate and, for all practical purposes, we've probably picked virtually all the low-lying fruit that we possibly can. It's

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even more marginal now in terms of any efficiencies we're going to generate. So, as much as I hate to say it, it is what do we want in the future and we as a society, and I view it as a societal issue, what are we willing to pay to get it? This is true for every other state. It's true nationally. I would mention, only because the first recommendation is due next month and I think I've mentioned it to many of you, there are two commissions. This is not...there's no secret, as we talk about this. There's not...word is getting out this is a societal issue and it's a big challenge. In this last federal transportation act there were two commissions that were formed to answer, essentially, two questions: what is the transportation system we want for the next 50 years, essentially on the fiftieth anniversary of the interstate; and how is it going to get paid for? The more interesting to watch is the recommendations of the second. The first commission knows the recommendations to Congress next month and I know, I've seen portions of some of their reports, recommendations, it will be interesting to see what their recommendations are to Congress, both answering what, what is that transportation system or interstate system or highway system or other components of transportation that we need or want as a nation for the next 50 years, and how is it going to be paid for? Those are two huge questions. And, of course, we have our portion of that here in Nebraska, as does every other state. They are big questions, no question about it. []

SENATOR STUTHMAN: Thank you. []

SENATOR FISCHER: Senator Wightman. []

SENATOR WIGHTMAN: Director, I think you gave us something close to these figures, \$380 million to \$390 million of revenues, and I think maybe that was in 2005 or 2006. []

JOHN CRAIG: That was our \$390 million worth of published program size in state fiscal year 2006. []

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SENATOR WIGHTMAN: And how much of that was revenue from the gas tax? []

JOHN CRAIG: Most of our revenues are generated by the fuel tax, both state and federal. So I if could turn to somebody behind me, I could find out the precise answer to that, but the majority of our funding is generated by the fuel tax, both state and federal. []

SENATOR WIGHTMAN: Okay. And then that's dropped to about \$341 million, is your projection for the current year? []

JOHN CRAIG: The program, the program size. []

SENATOR WIGHTMAN: So that's the program, not revenue. []

JOHN CRAIG: That's right. []

SENATOR WIGHTMAN: And we're talking about revenue, you're talking about both diesel and highway gas. []

JOHN CRAIG: Talking about all revenues, both state and federal, both fixed sources, which would be registration fees, sales tax on new vehicles, as well as the fuel tax. So when we publish the program, it's both state revenues and federal revenues. []

SENATOR WIGHTMAN: Okay. Now... []

JOHN CRAIG: I'm not giving you maybe the precise answer that you're looking for, but we'd be happy to get with you to work through that. []

SENATOR WIGHTMAN: But it's been a reduction of about 10 percent, almost \$40 million in the last two years, is that correct,... []

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JOHN CRAIG: Yes. []

SENATOR WIGHTMAN: ...from \$380 million or between \$380 million and \$390 million to \$341 million? []

JOHN CRAIG: Yes, and that's a combination. Yes. Yes. []

SENATOR WIGHTMAN: And I believe you said that the gas tax had been going down while the diesel tax went up, am I right, or both of them have been increasing? []

JOHN CRAIG: Yes, diesel continues to grow. Again, it probably depends on the time frame, but it continues to grow at about 3 percent a year. []

SENATOR WIGHTMAN: Which you can understand when you're out and see all the truck traffic on Interstate 80, I guess. []

JOHN CRAIG: You bet. They're delivering those goods that the rest of us are consuming, you bet. []

SENATOR WIGHTMAN: Has there ever been any analysis of what, I guess, the use or damage to roads is by diesel-driven, primarily diesel-driven, semi tractors and trailers as compared to a car that maybe...or the number of cars it would take to use the same amount of gas? []

JOHN CRAIG: There are...that continues to be researched in various places around the country. It's not to the point that it's precise enough to attribute certain kinds of vehicles and the damage they're causing to the road. That's, as I mentioned this potential revenue mechanism of using a vehicle miles travelled fee, that is a potential part of that, okay, what...if you're going to base it on the user, purely a user's fee, how much...how

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much is a certain type of vehicle or weight of vehicle causing of the road, the general conjecture is, and it's probably right, the heavier the vehicle the more damage to the road. Of course, we try and build them to accommodate the type of traffic that is traveling that road, but vehicles change at a much more faster rate than we're able to accommodate in terms of building roads. Wait and talk to you... []

SENATOR WIGHTMAN: But that weight affects both the original construction, because you're building a heavier road to accommodate that type of traffic, and then it also obviously affects maintenance in the... []

JOHN CRAIG: Yes. []

SENATOR WIGHTMAN: ...the damages. []

JOHN CRAIG: Yes, and it's predictable that--again, not certain--that as the years roll by the science of what is a certain weight or type of vehicle, what damage do they cause to a road, that is likely to get resolved. The precision is just not there. You can't do it yet. But there are people in the country that are working on just that question and some day that will likely happen and we'll deal with it when it gets here. []

SENATOR WIGHTMAN: So we're comparing, I guess, a 10 percent reduction over the last three years. I think you said asphalt, and I don't know if that was a three-year period, had gone up, like, 87 percent;... []

JOHN CRAIG: Yes. []

SENATOR WIGHTMAN: ...concrete, 56? []

JOHN CRAIG: Yes, in some states, actually, the price of a ton of asphalt has more than doubled, and it's nearly doubled, as I recall, in the state of Nebraska here in the last few

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years, and that reflects that 87 percent. []

SENATOR WIGHTMAN: And that's primarily as a result of the main ingredient, that being petroleum products, I would assume. []

JOHN CRAIG: Yes. Yes, other materials, too, but no question about it, we are, we as a country, we as a state, how we build roads is in many ways tied to the price of oil. And so it's predictable that, as that commodity becomes rarer and rarer, the price of it will go up and usage will go down. So it has a huge impact on everything we do. []

SENATOR WIGHTMAN: Thank you. []

SENATOR FISCHER: Other questions? I have just a couple, Director. From what I understand, the total loss that's being anticipated to the state from the federal Highway Trust Fund is \$114 million, with \$70 million of that being the state and the rest being for counties and cities? Is that correct? []

JOHN CRAIG: Almost. Not quite. Our best estimate is, and it won't work out this way, is \$114 million shared, \$80 million to the Department of Roads a year, \$34 million shared proportionately between the cities and counties. []

SENATOR FISCHER: Okay. Of that \$80 million, if the Congress was able to fix the federal Highway Trust Fund and the state of Nebraska didn't lose that \$80 million this coming year, what do you estimate that the program would still be behind in revenue to complete projects? []

JOHN CRAIG: Oh, what a great question. Let me do a quick mental calculation here. []

SENATOR FISCHER: You probably need a calculator because it's so high. []

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JOHN CRAIG: Well, this is how I'm going to say this. If they allowed us to retain that...if we got an additional \$80 million, and I'll have to calculate that here in a second, if you prorated the needs that I just reported on that are \$7.8 billion over the next 20 years, you could essentially...you would essentially calculate...well, you can double our current \$341 million to get from here to there. You know, if they gave us \$80 million right now, I don't think I could sit here and calculate what would be the impact to our program. On the surface, it would go up \$80 million, but I don't think it's quite that simple, for a variety of reasons. So I don't think I can give you a real good answer. But based on the needs that we have calculated, you could essentially double, and you would be in the ball park, the current program that we're in. []

SENATOR FISCHER: So even if the Congress, if the federal government were able to correct problems that they have with the federal Highway Trust Fund, I'm assuming your answer is that the state would still be behind on revenue if we continue in our present position. []

JOHN CRAIG: I think that is an absolutely true statement. []

SENATOR FISCHER: Okay. Just a short comment on earmarks: You and I have had this conversation. You said that with federal earmarks, it takes away where the money should be spent. Does the state of Nebraska have to take the money from the federal government that's earmarked? And if we would turn that money down because it does not fit in with our priority system that we have established in this state, what happens? []

JOHN CRAIG: Great question. Most of the federal money that we get, including earmarks, and this is a common misperception, it does not expire. So if you're not spending it, it's still sitting...first of all, there's no real money at the federal level. They reimburse us after we spend it, so there is...it's not like there's money that we have sitting out there in the bank from federal funds. []

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SENATOR FISCHER: So it's truly not a...off the top, it's not a 20/80 match; it's 100 percent from the state and then the state is reimbursed, say, 80 percent. []

JOHN CRAIG: Most...getting specifically to earmarks, most...there is some 100 percent earmarked money, not much. Most earmarks are 80 percent, then have to be matched 20 percent with state funds, and it has kind of a compounding effect. Obviously, we believe that the money needs to be spent most wisely on, just that, needs, which tends to reflect population and traffic, as harsh as it is to say that, depending on your perspective. So it does two things. One is it takes away from federal funds typically that we would have gotten and been allowed to spend on needs, and it may build a portion of a project if we put that to work. Oh, and oh, by the way, then we have to take other funds to match that with 20 percent, using state funds, and so it's kind of a one-two punch. And if it's earmarked for a need, we say, great, especially if it was. If the funds--and the rules sometimes change annually--if the funds have been set aside by Congress and they say, all right, we're going to let the 50 states compete with it, you either have your oar in there or you don't. And we spend some good time with the delegation, educating them on what our needs are. Of course, they make their own independent decisions. But we're not big fans of earmarks because it does have a one-two punch and the net is it takes away from where we believe the money ought to be spent. []

SENATOR FISCHER: I believe you said that the needs for the next 20 years is \$7.8 billion; when you calculate the inflation in it's \$12.1 billion. To me, that seems like a very low rate of inflation over 20 years. Your comments on that. In reality, I think the inflation rate is much higher. I mean, you said earlier that it was 11 percent for construction a year. []

JOHN CRAIG: Yeah, that's a terrific question. []

SENATOR FISCHER: So what do you figure on that; 3 percent? []

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JOHN CRAIG: That's a terrific question. Historically, we have used a inflation figure of 3 percent and it's served us well. Obviously, things have changed over the last few years, and what we used...and I should look to somebody behind me. As I recall, we had some debate internally about, well, what inflation factor should we use, and there was some discussion that, well, we should use 15 percent. We said, well, maybe that's a little too high. And maybe that's more realistic. So we're making some assumptions here, they're educated guesses, and they are just that. There is no certainty. It could be much higher. It could be much lower. If I was going to bet, I'd say it's going to be on the high side. As I recall what we used to come up with that inflated figure was 8 percent, no, 10 percent, 8 percent, 8 percent, 3 percent, the years past that, over that 20 years. And that's how we arrived at that figure, believing that at least that's somewhere in the ball park. But it would not be difficult to create an argument that inflation is going to be higher, but nobody really knows. They're just estimates. []

SENATOR FISCHER: Thank you. I would...I would say, yes, the state is at a crossroads when it comes to funding for our highways at the state, local, and county levels, and from the best educated guesses that we've heard today, something needs to be done. So thank you very much. []

JOHN CRAIG: I couldn't agree more. Thank you. []

SENATOR FISCHER: Other questions? Senator Nelson. []

SENATOR NELSON: May I ask, just to follow up with your figures there, with a quick calculation, at \$7.8 billion for the next 20 years, that would be about \$400 million, roughly, that you need each year, and that doesn't take into consideration inflation. So if that were stagnant, which it's not because of inflation, but just using those figures, you need \$170 million, as I understand it, just for maintenance alone. []

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JOHN CRAIG: Yes. []

SENATOR NELSON: So that would make it another \$230 million if you had what you would like to get... []

JOHN CRAIG: Yes. []

SENATOR NELSON: ...for capital improvement. And a side question is, I'm just assuming that the federal funds are mostly available for interstate work. Do they contribute to your state highways, mileage, and the amount of capital construction you can do there? []

JOHN CRAIG: That's a good question. We have...this is one of the, in some form or fashion, one of these questions that the Wyoming Legislature asked me, because they are almost entirely dependent on federal funds, with all the rules and strings and laws that you have to accommodate. We in Nebraska use both state and federal funds and so we literally make decisions project by project, do we use federal funds, do we state-only funds, trying to make that money go as far as we can and get projects done on budget and on time. There are three systems in Nebraska, three road systems. One is the city system, one is the county system, one is the state system. And those...any of those systems have what are referred to as federal aid...they're part of the federal aid highway system. The interstate is a part of that and the interstate is in a special category that the Federal Highway Administration pays a good deal of attention to and, essentially, they hold trump card. But there's federal funds spent on all of those roads, including the interstate, including state highways, because they're also federal aid highways, and county systems and city systems. []

SENATOR NELSON: It's not your job to raise revenue, as you said, but you probably follow what other states are doing, and most of the states, are they highly dependent on gas tax, gasoline taxes, or are you aware of some maybe new or better ways of funding

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that some states are using? []

JOHN CRAIG: Most states are dependent on fuel tax, state or federal. I just mentioned Wyoming and they're having the same debate. They have used very little state funds in the past and, arguably, that was part of the...as they were debating amongst/between themselves, they enjoy a good amount of mineral wealth and mineral revenues, but they have spent very little of that for roads and transportation in Wyoming, almost solely dependent on federal funds. So they're having that debate. But what do they do? I would say it's a fair generalization that most states are, the tried-and-true method, what has gotten us to this point and will get us into the foreseeable future, is fuel tax, both state and federal. And then it's...there's a...each state has been creative, and I don't mean that in any kind of a flippant way, but they have been creative in terms of what are the revenues they get, how do they do it. And I do have opinions about each of those, but you're right, my job is not to go out and look for funds. I would be wrong to do that. []

SENATOR FISCHER: Other questions? Senator Louden. []

SENATOR LOUDEN: Yes. []

SENATOR FISCHER: We have about five more minutes. []

SENATOR LOUDEN: Thank you, Senator Fischer. Director Craig, you mentioned that as your priorities you go on population and traffic, is how you more or less... []

JOHN CRAIG: Well, that's not our priorities. I would say more precisely our priorities have been and will weigh heavily on how we refine our methodology. It's based on safety, condition of the pavement, and traffic. All I was saying, by reference to population and traffic, is that resources, and I would argue any resources, including ours, they tend to follow population anywhere in the world. It's true here as well. []

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SENATOR LOUDEN: What I'm wondering about then, if that's the case and your funding is getting quite short, I guess, will there ever be any new construction done in the rural areas unless it is government...federal government earmark money? Because... []

JOHN CRAIG: I think that is an absolutely fair question, and the answer I don't know. And there won't be very darn much in the urban section and I may be here within the next year saying that there is no new capital projects being done anywhere, with a couple of exceptions, and it's just part of the reason the work needs to get done between now and next summer. It is a genuine concern. Talk about the south beltway, Wahoo bypasses, Heartland Expressway, Kimball bypass, it goes on and on and on, and I don't know. We'll see how the revenues develop. []

SENATOR LOUDEN: Do you intend to complete the six-lane then from Lincoln to Omaha, or Omaha to Lincoln, whichever way you're going? []

JOHN CRAIG: The way it looks right now, from the work within the department and in conjunction with various briefings and conversations with the Highway Commission, that is likely to be a priority, six-laning the interstate. However, even that has been slowed down and I would even predict that it may continue to slow down in terms of the speed with which that will get done. []

SENATOR LOUDEN: What percentage of your resources does that construction job take? I mean, is that taking a fourth of your money or what percentage? Because that's expensive construction. []

JOHN CRAIG: Well, it is, and it depends on the segment. So I would have to get you an answer for that, because it depends on the segment, depends on the year, and it depends on the time frame. It's expensive. Bridges are expensive and as we cross the Platte River that is, in effect, the single most-expensive project on the six-lane, is putting

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those bridges in. But any bridge is expensive, any bridge, and that in itself is a subject of some discussion. []

SENATOR LOUDEN: Now can you build expressway systems, like, farther out? Because when you build expressway systems, you don't have to build these interchanges and overpass bridges and that sort of thing. Do they... []

JOHN CRAIG: Well, that's not entirely true. We're mixing things a little bit. Portions of the expressway system are also a freeway. That means there is no at-grade intersections. But you're right in asserting that most of those expressways are not built to freeway standards and, therefore, they do have at-grade crossings, so... []

SENATOR LOUDEN: Okay. Thank you. []

SENATOR FISCHER: Our time is just about up for the hearing. Is there a quick question that a senator would like to ask? Senator Wightman, quick question. []

SENATOR WIGHTMAN: I know you've said some of the states have a sales tax and I'm assuming that sales tax impacts like any other sales tax. It's a percentage of the total purchase? []

JOHN CRAIG: I believe the state of Georgia has that. []

JOHN WIGHTMAN: The advantage I see of that is that it would go up with the price of gas, which somebody asked a question earlier about what do you do and what does that represent as far as percent of the total purchase. It would have that advantage, I assume. []

JOHN CRAIG: In theory, it would, and part of the reason...I think I remember the state of Georgia, because as here in the last couple of years, as the price of gas went up at

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the pump, they set aside that sales tax as some relief for their citizens. And so it's an open question, would it or not, and...but, in theory, it would, if the political will existed to stay with it. One would have to think through that and calculate it, but, in theory, it seems like it would anyway. []

JOHN WIGHTMAN: Thank you. []

SENATOR FISCHER: Thank you, Director Craig. I know we've been focusing on the needs of the state, that's what your report is on, but just one comment. Because our Highway Trust Fund provides income and revenue for cities and counties, if we continue to see decreases in revenue it not only affects the state but it also affects our cities and counties. Would you agree to that? []

JOHN CRAIG: Absolutely. Absolutely. []

SENATOR FISCHER: What do you think the solution is for local governments then when they lose revenue that comes from the fuel tax to the cities and counties? I assume they have two choices: they cut projects, or they raise property taxes. Would you agree with that? []

JOHN CRAIG: Well, I don't know. I don't know what all their options are, but they have the same issue that we are discussing here. It's a terrible dilemma and if a... []

SENATOR FISCHER: So when we talk here... []

JOHN CRAIG: ...if one of the...I'll try and make this point, I'm sympathetic to the counties because they own most of the road miles in the state, most of those gravel roads. []

SENATOR FISCHER: Don't they have over 9,000 miles in the state? []

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JOHN CRAIG: ...and most of the bridges and they don't carry much traffic, but they have an enormous challenge, probably more than we as the department, and it further complicates the situation. But I don't know what the options are at the local level, and it's a terrible dilemma for them. There's no question about it. []

SENATOR FISCHER: So I guess I'm trying to make the point, although we are focusing at this hearing on the needs of the state and that's our concern, because of the way our funding formula is set up here in Nebraska, what we do in the Legislature has a direct impact on local governments and local property taxpayers. Would you agree with that? []

JOHN CRAIG: Absolutely. I absolutely agree, absolutely. []

SENATOR FISCHER: Okay. I would like to thank you for being here today and giving us this information. Thank you very much. []

JOHN CRAIG: Thank you, Senator. Thank you. []

SENATOR FISCHER: With that, we're going to need to take about a five-minute break before we start the next hearing, in order to get our computer working. []